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Message Text

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C O N F I D E N T I A L STATE 015334

E.O. 11652; GDS

TAGS: ENRG, EINV, CG, US

SUBJECT: POSITION OF TEXACO AND MOBIL ON PARTICIPATION/
COMPENSATION NEGOTIATIONS WITH GOZ

REFS: STATE 005781; KINSHASA 0280

1. REPS OF MOBIL (WILLIAMS) AND TEXACO (HENSHAW AND POUPEAU) MET WITH DEPTOFFS (AF/C AND L) JANUARY 19 TO DISCUSS SITUATION IN ZAIRE IN WAKE OF GOZ'S OFFER TO RETURN 40 PERCENT OF EQUITY INTEREST IN NATIONALIZED COMPANIES TO FORMER OWNERS.

2. ACCORDING TO COMPANY REPS, BOTH MOBIL AND TEXACO HAVE PROPOSED TO GOZ THE "MOROCCO" FORMULA, UNDER WHICH EACH FOREIGN COMPANY WOULD REACQUIRE EQUITY SHARE IN ITS FORMER ZAIRE SUBSIDIARY. GOVERNMENT SHARE IN EACH WOULD BE HELD BY PETROZAIRE. COMPANY REPS REPORT THAT INITIAL GOZ PREFERENCE IS FOR SINGLE COMPANY, IN CONFIDENTIAL

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WHICH FOREIGN COMPANIES SHARE 40 PERCENT OF EQUITY

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AMONG THEM. ALTHOUGH THEY ARE AWAITING OFFICIAL GOZ RESPONSE TO THEIR OWN PROPOSALS, THEY FEAR THEY MAY BE PRESENTED WITH FAIT ACCOMPLI IF GOZ AND PETROFINA REACH AGREEMENT ON SINGLE COMPANY FORMULA. FINA REP INFORMED TEXACO MORNING JANUARY 19 THAT FINA IS PREPARING A A DRAFT "PROTOCOL" ALONG THESE LINES AND WANTS OTHER COMPANIES TO GO ALONG. WE NOTE REPORT KINSHASA 0280 THAT GOB IS GIVING PRIORITY TO FINA CASE IN ITS EFFORTS TO WORK OUT ARRANGEMENTS FOR COMPENSATION OF BELGIAN COMPANIES EXPROPRIATED BY ZAIRE.

3. SINGLE COMPANY FORMULA IS UNACCEPTIBLE TO MOBIL AND TEXACO FOR A NUMBER OF REASONS: IN JOINT COMPANY, WHOSE MANAGEMENT WOULD PROBABLY BE DOMINATED BY FINA, COMPANIES WOULD NOT CONTROL OPERATION ON WHOSE PROFITABILITY THEIR COMPENSATION WOULD DEPEND; THEY MIGHT ALSO FIND THEMSELVES COMMITTED TO DECISIONS ON CREDIT AND CAPITAL EXPENDITURES TO WHICH THEY WERE OPPOSED BUT WHICH THEY WOULD BE IN WEAK POSITION TO RESIST; FINALLY, THEY WOULD BE INVOLVED IN CARTEL OPERATION WHICH COULD CONCEIVABLY RUN THEM AFOUL OF US ANTI-TRUST LAWS. WHILE MAKING IT CLEAR THAT DEPARTMENT TAKES NO POSITION ON WHAT SPECIFIC FORM COMPANIES' SETTLEMENT WITH GOZ SHOULD TAKE, L REP CONFIRMED THAT SINGLE JOINT COMPANY FORMULA WOULD EXPOSE COMPANIES TO LEGAL UNCERTAINTY ABOUT THEIR ANTI-TRUST LIABILITY AND THAT THERE WAS LITTLE LIKLIHOOD OF THEIR BEING ABLE TO GET FROM THE DEPARTMENT OF JUSTICE AN ADVANCE ADVISORY OPINION GIVING APPROVAL TO SUCH AN ARRANGEMENT.

4. TEXACO AND MOBIL REPS BOTH ACKNOWLEDGED THAT MOROCCAN FORMULA MIGHT NOT BE ACCEPTABLE TO GOZ AND PETROZAIRE, BECAUSE IT WOULD REDUCE PETROZAIRE TO STATUS OF HOLDING COMPANY. TO DEAL WITH THIS OBJECTION, THEY SAID, THEY WOULD BE WILLING--INDEED IT WAS CLEAR THAT THEY WOULD PREFER--TO REACQUIRE THEIR EQUITY PARTICIPATION IN OPERATIONS IN LIMITED FUNCTIONAL AREAS (E.G., LUBES, AVIATION PRODUCTS SUPPLY, ETC.), LEAVING ELEMENTS OF THEIR FORMER HOLDINGS, PARTICULARLY VISIBLE ONES LIKE SERVICE STATIONS, EXCLUSIVELY TO PETROZAIRE. EXACT CONFIDENTIAL

FORMULA WOULD BE MATTER FOR NEGOTIATION. ALTHOUGH THEY WOULD LIKE AT LEAST 50 PERCENT INTEREST IN ANY OPERATION IN WHICH THEY ARE INVOLVED, THEY ALSO REGARD PERCENTAGE OF PARTICIPATION AS A NEGOTIABLE ISSUE. WHAT THEY WANT DESPARATELY TO AVOID, HOWEVER, IS THE SINGLE COMPANY FORMULA UPON WHICH THEY FEAR GOZ AND FINA MAY SOON REACH AGREEMENT. THEY WOULD LIKE USG INTERCESSION WITH GOZ AT APPROPRIATE LEVEL TO AVERT THIS.

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5. DEPTOFFS UNDERTOOK TO ASK EMBASSY TO BRING COMPANIES' CONCERN WITH SINGLE-COMPANY FORMULA TO ATTENTION OF GOZ. UNLESS OBJECTION IS PERCEIVED, EMBASSY SHOULD POINT OUT TO GOZ THAT WHILE MOBIL AND TEXACO ARE EAGER TO NEGOTIATE MUTUALLY AGREEABLE FORMULA FOR

PARTICIPATION AND COMPENSATION, SINGLE COMPANY FORMULA IS ONE WHICH THEY REGARD AS UNWORKABLE AND WHICH THEY FEAR, AND WE CAN CONFIRM, WOULD PLACE THEM IN LEGALLY UNCERTAIN POSITION VIS-A-VIS US ANTI-TRUST LAW. COMPANIES ALSO BELIEVE ZAIRE WOULD BENEFIT FROM COMPETITIVE SITUATION THAT EXISTENCE OF SEPARATE COMPANIES WOULD CREATE, AND THAT IT WOULD ALSO BE WELL SERVED BY HAVING CONTINUING SEPARATE ACCESS TO RESOURCES OF THE INTERNATIONAL OIL COMPANIES CONCERNED, EACH OF WHICH WOULD BE INTERESTED IN STRENGTHENING COMPETITIVE POSITION OF ITS OWN JOINT VENTURE WITH PETROZAIRE/GOZ. WHILE USG CANNOT SERVE AS SURROGATE FOR COMPANIES IN NEGOTIATIONS WITH GOZ, DEPT BELIEVE PRESENTATION ALONG THESE LINES, STRESSING COMPANIES' DESIRE TO CONTINUE EXPLORATION OF THESE ISSUES WHENEVER GOVERNMENT IS READY, COULD BE HELPFUL.

6. IN ADDITION TO APPROACHING GOZ, EMBASSY MIGHT ALSO, AT ITS DISCRETION, SOUND OUT BELGIANS ON FINA'S INTENTIONS AND INDICATE IN GENERAL TERMS PROBLEM SINGLE JOINT COMPANY FORMULA WOULD POSE FOR US COMPANIES. SISCO

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